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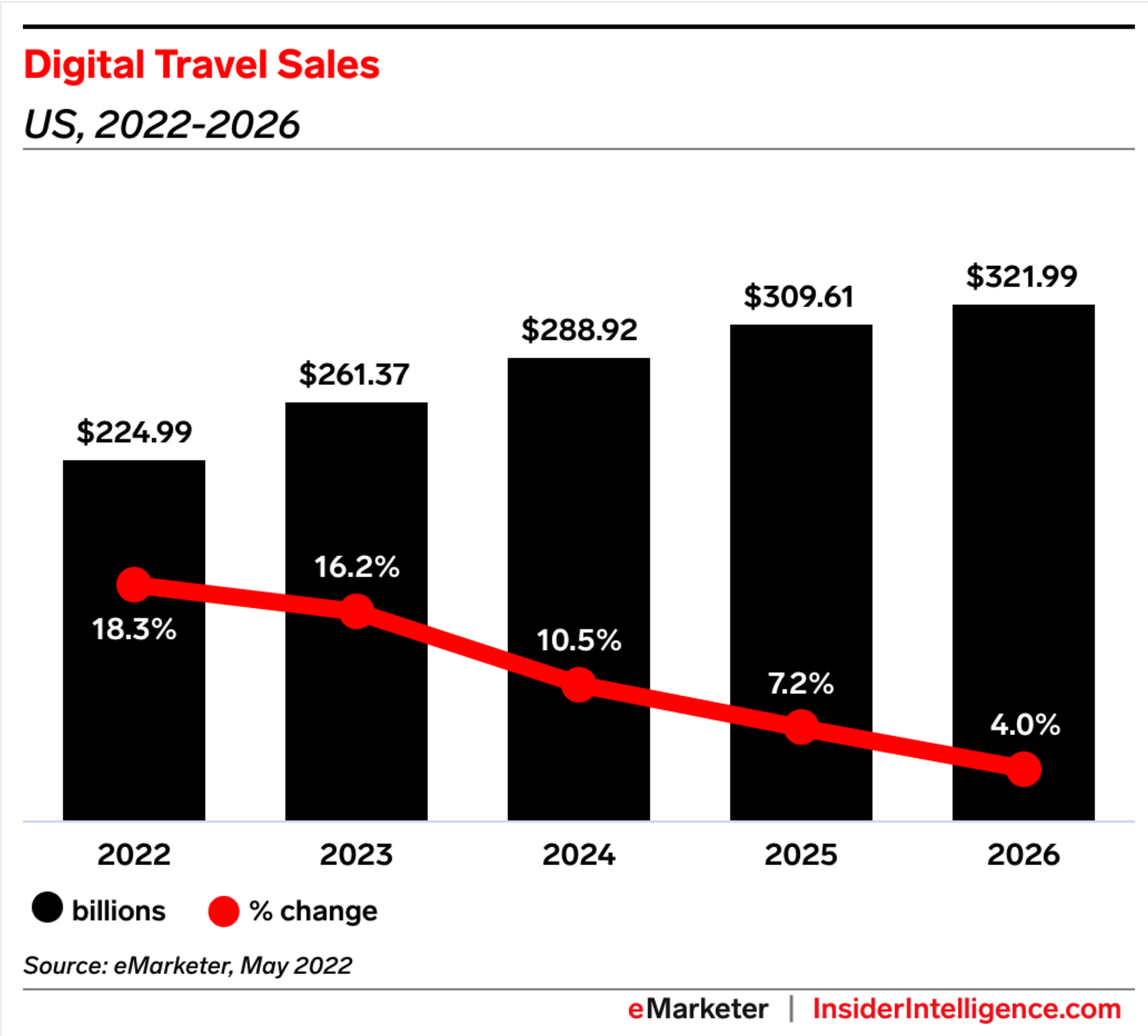
Retail is bearish, hospitality is bullish as consumer spend shifts toward experiences

Article

The news: Travel is back. Not only did **revenues at a host of experience-related companies soar in Q2, but also many of them are optimistic that consumers will continue to spend on**

travel and hospitality in Q3 and throughout the rest of the year.

- Their bullishness about the near-term outlook stands in stark contrast to many retailers, which are increasingly bearish due to inflation, as well as the shift in consumer spending to experiences.



The numbers:

- **Airbnb's Q2 gross booking value jumped 27% year-over-year (YoY) to $17.0 billion** and revenues grew 58% YoY to $2.10 billion. It expects Q3 revenues to grow between 24% and 29% YoY, which would deliver the highest quarterly revenues in Airbnb history.
- **Marriott's Q2 revenues rose 70% YoY to $5.34 billion**. While it generated strong results across its brands, the growth rate among Marriott's high-end chains such as **Ritz-Carlton** and **W Hotels** outpaced its limited-service hotels such as **Courtyard** and **Residence Inn**. Marriott projects its Q3 EBITDA will grow 62% to 66%.
- **American Airlines' Q2 revenues soared 79.5% in Q2 to $13.42 billion**. It expects Q3 revenues will be 10% to 12% higher than Q3 2019, which would be a 46% to 49% increase YoY.
- **United Airlines' Q2 revenues jumped 121% to $2.45 billion.** It projects an 11% increase compared to Q3 2019, which would be a 62.9% increase YoY.

Why it matters: While some consumers are slowing down spending due to economic headwinds, many have simply shifted their spending to experiences such as travel and dining out.

- **Consumer spending on food services and accommodations rose 13.5% in Q2**—a marked increase from 5.2% in Q1, per the US Commerce Department.
- Consumers are also increasingly out and about, as **Uber's ride-sharing business grew 55% in Q2** to $13.36 billion. That put it closer to parity with **Uber Eats**, which grew 7% to $13.88 billion.
- "While we are closely monitoring consumer and macroeconomic trends, we have yet to see signs of a slowdown in global lodging demand," said Marriott CEO **Tony Capuano**. "On the contrary, the pent-up demand for all types of travel, the shift of spending towards experiences versus goods, sustained high levels of employment, and the lifting of travel restrictions and opening borders in most markets around the world are fueling travel."

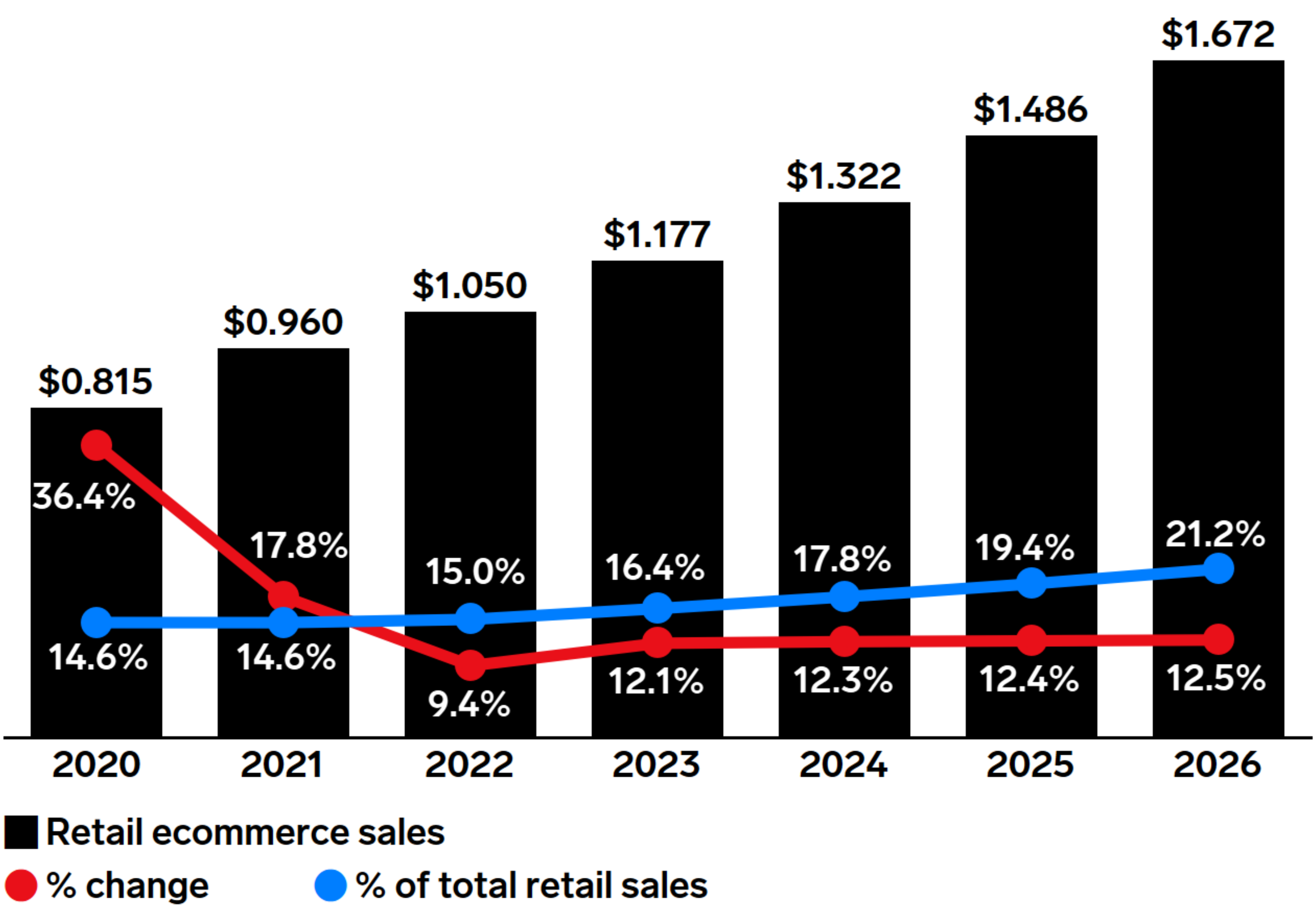
The bearish perspective: Meanwhile, retailers and brands ranging from **Under Armour** to **Best Buy** to **Stanley Black & Decker** have offered pessimistic outlooks due to declining consumer demand.

- Fifty-nine percent of retailers that are small businesses are at risk of closing their doors by this fall, per an Alignable survey.
- The pandemic-era boom for many categories is flattening out, which is one reason we expect the annual growth rate of ecommerce sales will soften in 2022. Our forecast projects **US retail**

ecommerce sales will grow 9.4% this year, down from 17.8% last year. That would be the slowest growth rate since 2009.

Retail Ecommerce Sales in the US, 2020-2026

trillions, % change, and % of total retail sales



Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, restaurant sales, food services and drinking place sales, gambling and other vice goods sales
Source: eMarketer, June 2022

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The big takeaway: Consumer spending has been remarkably resilient. But after two years of buying goods in lieu of services and travel, people are gravitating back to a pre-pandemic equilibrium.